

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>South Macomb Disposal Authority</u>	County Macomb
Audit Date June 30, 2005	Opinion Date November 30, 2005	Date Accountant Report Submitted To State: December 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 2601 Cambridge Court, Suite 500	City Auburn Hills	State MI.	ZIP 48326
Accountant Signature <i>Plante & Moran, PLLC</i>			

South Macomb Disposal Authority

Financial Report

June 30, 2005

South Macomb Disposal Authority

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Basic Financial Statements	
Statement of Net Assets	6
Statement of Revenue, Expenses, and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9-13



Plante & Moran, PLLC

Suite 50C

2601 Cambridge Court

Auburn Hills, MI 48326

Tel: 248.375.7100

Fax: 248.375.7101

plantemoran.com

Independent Auditor's Report

To the Board of Directors
South Macomb Disposal Authority

We have audited the accompanying basic financial statements of South Macomb Disposal Authority as of June 30, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Macomb Disposal Authority at June 30, 2005 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

November 30, 2005

A member of



A worldwide association of independent accounting firms

South Macomb Disposal Authority

Management's Discussion and Analysis

Using this Annual Report

South Macomb Disposal Authority (the "Authority") is a joint venture of five cities located in southern Macomb County: Center Line, Eastpointe, Roseville, St. Clair Shores, and Warren. The primary roles of the Authority are to manage the transfer of solid waste currently collected by all of the member cities (except Warren) and to provide for the postclosure care of landfill sites previously operated by the Authority. The Authority does not currently operate any landfill sites. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the dual missions of the Authority. From a financial perspective, the Authority's core objective (and ongoing operation) is to manage the costs of solid waste transfer for Center Line, Eastpointe, Roseville, and St. Clair Shores. With respect to this core objective, the Authority acts as a conduit for the four participating members. The amounts to be charged to the participating members for these services will, therefore, approximate the Authority's costs of providing solid waste transfer services. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources). To this end, the net assets of the Authority related to ongoing operations is approximately \$1,339,000, of which approximately \$554,000 is invested in capital assets.

The other objective of the Authority is to provide for the postclosure care of landfill sites previously operated by the Authority, including all five of its member cities. In prior years, the Authority successfully sued its insurers and received a settlement for remediation of two of its sites. Under the terms of the settlement, the Authority's continuing insurance coverage is limited to costs of defense, past response costs, and the cost of remedial investigation on four sites for which the Authority has continuing maintenance and monitoring responsibilities. In addition, the Authority had previously received grant monies from the State of Michigan related to the remediation of sites 9 and 9A, the two sites for which the Authority successfully sued its insurers and received a settlement during the prior year. Because the Authority was able to recover the remediation costs from its insurers, the State requested the Authority pay back these grant monies. On May 4, 2005, the Macomb County Circuit Court deemed the settlement with the Authority's insurers for sites 9 and 9A to be a recovery of costs paid with grant monies and, therefore, the Authority is required to reimburse the State of Michigan for these grant monies. The liability to the State for the grant monies at June 30, 2005 is approximately \$5,700,000, of which \$400,000 will be reimbursed to the Authority by its attorneys. The liability and receivable have been recorded by the Authority at June 30, 2005.

South Macomb Disposal Authority

Management's Discussion and Analysis (Continued)

During the year ended June 30, 2004, two of the four remaining sites were required by the State of Michigan Department of Environmental Quality to undergo remediation. The Authority has entered into a contract with a company for approximately \$7,500,000 to perform the required remediation of the two landfill sites and to indemnify the Authority against any future claims. As of June 30, 2005, the Authority entered into a contract with a company for approximately \$1,500,000 for the remediation investigation not included in the contract to remediate the two sites. In addition, the Authority agreed to pay the Michigan Department of Environmental Quality for previous response costs of \$1,732,614. The Authority was reimbursed by the Authority's insurer approximately \$4,200,000 subsequent to the year ending June 30, 2005. As of June 30, 2005, the Authority has net assets of approximately \$4,758,000 including approximately \$486,000 invested in capital assets, accumulated to pay for future postclosure care or remediation costs for the two remaining landfill sites.

Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior year.

	Year Ended June 30		Change	
	2005	2004	Amount	Percent
Assets				
Current assets	\$ 14,506,809	\$ 12,136,575	\$ 2,370,234	20
Capital assets	1,039,821	1,964,322	(924,501)	(47)
Total assets	15,546,630	14,100,897	1,445,733	10
Liabilities				
Current liabilities	3,499,626	392,716	3,106,910	791
Long-term liabilities	5,950,000	9,350,000	(3,400,000)	(36)
Total liabilities	9,449,626	9,742,716	(293,090)	(3)
Net Assets				
Invested in capital assets	1,039,821	1,964,322	(924,501)	(47)
Unrestricted	5,057,183	2,393,859	2,663,324	111
Total net assets	<u>\$ 6,097,004</u>	<u>\$ 4,358,181</u>	<u>\$ 1,738,823</u>	40

The following table presents condensed information about the Authority's revenues and expenses compared to the prior year.

South Macomb Disposal Authority

Management's Discussion and Analysis (Continued)

	Year Ended June 30		Change	
	2005	2004	Amount	Percent
Operating Revenue				
Disposal fees	\$ 1,510,338	\$ 1,487,526	\$ 22,812	2
Administrative fees	59,447	60,024	(577)	(1)
Total operating revenue	1,569,785	1,547,550	22,235	1
Operating Expenses				
Operations and maintenance	95,219	88,790	6,429	7
General and administrative	46,704	46,889	(185)	-
Contracted disposal costs	1,142,496	1,173,457	(30,961)	(3)
Total operating expenses	1,284,419	1,309,136	(24,717)	(2)
Nonoperating Revenue (Expenses)				
Postclosure and remediation costs	(42,856)	(7,976,482)	7,933,626	(99)
Reimbursements related to remediation -				
Insurance and other	800,000	4,873,000	(4,073,000)	(84)
Repayment of municipal landfill cost-share grant	-	(5,088,611)	5,088,611	(100)
Gain on sale of land	420,315	-	420,315	100
Other income	340,737	201,943	138,794	69
Other legal expenses related to closed sites	(64,739)	(265,321)	200,582	(76)
Total nonoperating revenue (expense)	1,453,457	(8,255,471)	9,708,928	(118)
Net income (loss)	<u>\$ 1,738,823</u>	<u>\$ (8,017,057)</u>	<u>\$ 9,755,880</u>	(122)

Significant Variances from Prior Year

The increase in the Authority's total net assets from the prior year is mainly due to the Authority receiving the reimbursement from the issuance company, the adjustment of estimated lawsuits to actual, and the gain from the sale of land during the current year. At June 30, 2005, the Authority has only two landfill sites for which it is responsible for future postclosure care. An estimated liability has been recorded to capture the potential liability related to any postclosure care costs related to the two remaining sites at the Authority. Consequently, the significant variances from prior year nonoperating revenue and expenditures is due to the landfill remediation and lawsuit costs described above and in Note 7 of the report. In addition, the current year statement of revenue, expenses, and changes in net assets reflects a gain on the sale of land of \$420,315. The significant decrease from the prior year in operating revenue is consistent with the significant decrease in operating expenses due to the Authority passing on its costs of refuse disposal services.

Net Asset Designations and Risk Management

The Authority has potentially significant economic issues to resolve over the next several years related to the two remaining landfill sites. The accumulated net assets for postclosure care costs have been set aside by the Authority's governing body to serve as a reserve fund for potential remediation costs for which the Authority is now uninsured.

South Macomb Disposal Authority

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

For ongoing solid waste transfer operations, costs will be dependent on the volume of solid waste hauled. The Authority's budget for the year ending June 30, 2006 forecasts a moderate increase in solid waste and, therefore, costs.

The Authority has estimated and recorded known postclosure care liabilities as of June 30, 2005. The Authority will amend its budget as necessary for additional costs assessed by the State of Michigan or other regulatory authorities.

Contacting the Authority's Management

This financial report is intended to provide our member cities with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member cities and other sources. If you have questions about this report or need additional information, we welcome you to contact the Authority's offices.

South Macomb Disposal Authority

Statement of Net Assets June 30, 2005

Assets

Cash and investments (Note 2)	\$ 8,701,796
Accounts receivable	328,827
Accrued interest receivable	9,904
Prepaid insurance	8,282
Receivables related to site remediation - Insurance and other (Note 7)	5,458,000
Land	254,963
Capital assets (Note 3)	<u>784,858</u>

Total assets 15,546,630

Liabilities

Accounts payable	237,012
Accrued postclosure care and remediation liabilities (Note 7):	
Due within one year	3,262,614
Due in more than one year	<u>5,950,000</u>

Total liabilities 9,449,626

Net Assets

Invested in capital assets	1,039,821
Unrestricted (Note 4)	<u>5,057,183</u>

Total net assets \$ 6,097,004

South Macomb Disposal Authority

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

Operating Revenue

Disposal fees	\$ 1,489,835
Closure cost billings	20,503
Administrative fees	59,447

Total operating revenue 1,569,785

Operating Expenses

Operations and maintenance	95,219
General and administrative	46,704
Contracted disposal costs	1,142,496

Total operating expenses 1,284,419

Operating Income 285,366

Nonoperating Revenue (Expenses)

Postclosure and remediation costs (Note 7)	(42,856)
Reimbursements related to remediation - Insurance and other (Note 7)	800,000
Investment interest income	173,351
Other legal expenses related to closed sites	(64,739)
Gain on sale of land	420,315
Other	167,386

Total nonoperating revenue 1,453,457

Net Income 1,738,823

Net Assets - Beginning of year 4,358,181

Net Assets - End of year \$ 6,097,004

South Macomb Disposal Authority

Statement of Cash Flows Year Ended June 30, 2005

Cash Flows from Operating Activities

Cash received from customers	\$ 1,569,527
Cash payments to suppliers for goods and services	<u>(1,370,307)</u>
Net cash provided by operating activities	199,220

Cash Flows from Noncapital Financing Activities -

Payment of postclosure care and remediation costs	<u>(107,595)</u>
---	------------------

Cash Flows from Investing Activities

Purchase of investments	(65,558)
Proceeds on the sale of land	1,305,000
Interest received on investments	<u>177,412</u>
Net cash provided by investing activities	<u>1,416,854</u>

Net Increase in Cash and Cash Equivalents

1,508,479

Cash and Cash Equivalents - July 1, 2004

6,719,248

Cash and Cash Equivalents - June 30, 2005

\$ 8,227,727

Statement of Net Assets Classification of Cash and Cash Equivalents

Cash and investments	\$ 8,701,796
Investments greater than 90 days	<u>(474,069)</u>
Total cash and cash equivalents	<u><u>\$ 8,227,727</u></u>

Cash Flows from Operating Activities

Operating income	\$ 285,366
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	39,816
Changes in assets and liabilities:	
Increase in accounts receivable	(258)
Decrease in accounts payable	<u>(125,704)</u>
Net cash provided by operating activities	<u><u>\$ 199,220</u></u>

Noncash Activities - There were no significant noncash operating, financing, or investing activities during the year ended June 30, 2005.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2005

Note 1 - Nature of Business and Significant Accounting Policies

The South Macomb Disposal Authority (the "Authority") consists of five member municipalities in Macomb County, Michigan. The Authority currently provides refuse disposal services primarily for the benefit of four of the five member municipalities. The governing body of the Authority consists of five members - one appointed by each of the five member communities.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to an enterprise fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the Authority. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fixed Assets - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

Cash Equivalents - For the purpose of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments are valued at fair value.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Authority's deposits and investment policies are in accordance with statutory authority.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2005

Note 2 - Deposits and Investments (Continued)

The Authority's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Authority had \$8,405,295 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	2004	Additions	2005	Depreciable Life - Years
Capital assets being depreciated:				
Site improvements	\$ 585,144	\$ -	\$ 585,144	40
Equipment	346,848	-	346,848	7-15
Waste transfer station	1,201,645	-	1,201,645	40
Transfer station equipment	36,807	-	36,807	10-15
Subtotal	2,170,444	-	2,170,444	
Less accumulated depreciation for:				
Site improvements	(227,180)	(14,800)	(241,980)	
Equipment	(345,386)	(628)	(346,014)	
Waste transfer station	(736,397)	(24,388)	(760,785)	
Transfer station equipment	(36,807)	-	(36,807)	
Subtotal	(1,345,770)	(39,816)	(1,385,586)	
Net capital assets being depreciated	\$ 824,674	\$ (39,816)	\$ 784,858	

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2005

Note 4 - Net Assets

The Authority has designated certain net assets related to postclosure care and potential remediation activities. The designated net assets include proceeds from several litigation settlements with the Authority's insurers for remediation of the Authority's landfill sites. As part of these settlements, the insurers may be held to pay future defense costs but not remediation costs for the remaining two sites operated by the Authority. The amount of net assets designated totals \$4,758,000, which includes approximately \$ 486,000 of the capital assets of the Authority. The Authority has designated these funds in a postclosure care/insurance reserve fund to pay for the potential remediation of the remaining two landfill sites (see Note 7).

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical and life insurance claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 6 - Postclosure Care Liabilities

Current state and federal laws and regulations require final covers on active landfill sites and the performance of certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs are paid only near or after the date that the landfill stopped accepting waste, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. As of June 30, 2005, the Authority has two landfill sites for which it has continuing postclosure maintenance and monitoring responsibilities.

The Authority has also recorded a liability for landfill postclosure care for all sites at June 30, 2005. This amount is an estimate of the cost to perform all known post-closure care in current dollars for all other Authority landfill sites with continuing maintenance requirements. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2005

Note 7 - Remediation Costs, Commitments, and Contingent Liabilities

The Authority reached an agreement with the State of Michigan Department of Environmental Quality (MDEQ) concerning its liability for the remediation of the Red Run Drain landfill sites previously operated by the Authority. To complete the remediation, the Authority has entered into a contract with and paid Environmental Risk Solutions (ERS) approximately \$7,500,000. Under this contract, ERS is obligated to perform the remediation of the Red Run Drain landfills to whatever standards the MDEQ imposes and to indemnify the Authority against essentially any future claim, backed up by \$16,000,000 of insurance. Although the contract with ERS limits the Authority's liability related to the remediation, the Authority was still responsible for paying the costs of the remediation investigation to determine the nature and extent of the contamination at the Red Run Drain landfills. During 2005, ERS was hired by the Authority to perform the remediation investigation for \$1,500,000. The Authority was also responsible to pay the State for past response costs of approximately \$1,700,000. The agreement with the State also provides for the Authority to receive approximately \$858,000 that the State has collected from other third parties. Subsequent to year end, the Authority paid the entire \$1,500,000 to ERS for the remediation investigation, \$1,732,614 to the State, and received \$858,000 reimbursement from third parties.

The Authority has also been engaging in extended settlement discussions with its insurer regarding coverage for the Red Run Drain landfill sites. Under a previous consent judgment that was entered on September 3, 2003, the insurer is liable for the Authority's cost of defense, past response costs that the Authority is required to pay the State, and the cost of performing the remedial investigation. Based on this consent judgment, the insurer would owe the Authority approximately \$3,200,000 to cover the remediation investigation and the past response costs to the State of Michigan and an additional amount to cover past attorney costs. On June 17, 2005, the Authority and its insurer tentatively agreed to a settlement of \$4,200,000, plus accrued defense costs, in return for which the Authority will relinquish all future rights of claim. During the year ending June 30, 2005, the agreement was finalized and subsequent to year end, the Authority received a settlement for \$4,200,000.

In addition, the Authority has received a total of approximately \$5,700,000 in landfill grant funds from the State of Michigan to assist with the remediation of sites 9 and 9a. The State demanded that these funds be returned since the Authority received reimbursement from its insurers and, on May 4, 2005, the Macomb County Circuit Court upheld the State's demand, which the Authority is appealing. If the Authority is ultimately required to pay the grant monies back to the State, the attorneys that represented the Authority in its claim against the insurers will reimburse approximately \$400,000 of legal fees to the Authority. The payable and receivable are reflected in the Authority's balance sheet as of June 30, 2005.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2005

Note 8 - Postemployment Benefits

The Authority provides health care benefits to all full-time employees upon retirement. Currently, three retirees are receiving benefits. The Authority includes retirees and their dependents in its insured health care plan, with no contribution required by the participants. Expenditures for postemployment health care benefits are recognized as insurance premiums become due; during the year, this amount was approximately \$6,840.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.



Plante & Moran, PLLC

Suite 50C

2601 Cambridge Court

Auburn Hills, MI 48326

Tel: 248.375.7100

Fax: 248.375.7101

plantemoran.com

December 30, 2005

To the Board Members
South Macomb Disposal Authority
20001 Pleasant Avenue
St. Clair Shores, MI 48080

Dear Board Members:

We have recently completed our audit of the financial statements of South Macomb Disposal Authority for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the board members and others within the organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the financial statements of the South Macomb Disposal Authority in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility of adopting sound accounting policies, of maintaining an adequate and effective system of accounts, of the safeguarding of assets, and of devising internal controls that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

A member of



A worldwide association of independent accounting firms

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

Internal Controls

In planning and performing our audit of the financial statements of South Macomb Disposal Authority for the year ended June 30, 2005, we considered the Authority’s internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Authority’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, the Authority does not have an adequate segregation of accounting duties. We consider this item to be a reportable condition.

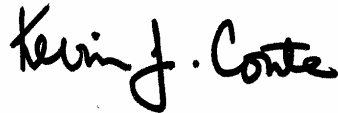
December 30, 2005

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the reportable condition noted above is a material weakness.

As always, we thank the board for the opportunity to serve. We would be happy to answer any questions you may have regarding the annual financial report and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Kevin J. Conte". The signature is written in a cursive, flowing style.

Kevin J. Conte